



**Testimony of Lance Johnson, AARP Volunteer  
on H.B. 5505, An Act Concerning Electric Rate Relief  
Energy & Technology Committee  
March 16, 2010**

Chairman Fonfara, Chairwoman Nardello, members of the Energy and Technology Committee, thank you for the opportunity to testify on H.B. 5505. My name is Lance Johnson and I am an AARP volunteer advocate for utility affordability issues. AARP is a nonprofit, non-partisan membership organization that serves people 50 and older. We have approximately 40 million members nationwide and nearly 600,000 in Connecticut. On behalf of our members, AARP supports various provisions of H.B. 5505. This bill emerged from recommendations from Speaker Donovan's working group on electric rate relief. AARP actively participated in the working group and made two major recommendations: (1) establish a public power authority and (2) create a low-income electric rate. AARP's third recommendation was to end-retail market competition for electricity; we urge the Committee to add this recommendation to H.B.5505 through substitute language.

Few issues have been of greater concern in the past few years than energy affordability. Connecticut Electric Rates were high before the legislature deregulated. We were the fifth highest in the continental United States. Today we are the highest and the gap in rates between Connecticut and the next highest has grown. While many factors have contributed to this, the deregulation of the electric market certainly has not lived up to its promise of lowering and stabilizing rates. Connecticut residents, especially older adults, are struggling to pay their electricity bills. They're complaining to the utility companies; they're calling their legislators, and they're coming to AARP for help. These are real people struggling and the impact is especially great on older people living on fixed incomes, most of whom have seen their retirement savings plummet in value over the past year.

AARP urges state leaders to take action to bring down and stabilize electricity rates. There is no simple solution, but several market reforms outlined in H.B. 5505 would help consumers.

**AARP supports the creation of a public power authority**

AARP continues to support the creation of a public power authority as proposed in H.B. 5505. Responding to our member concerns about Connecticut's high electric rates last year, AARP hired Robert McCullough, an energy consultant, and gave him one simple mission—tell us what Connecticut can do, within our state's market framework, to reduce rates and ensure reliable service. His recommendation was to establish a public power authority. A Connecticut power authority modeled on the new Illinois Power Agency would bring competition into the wholesale market, benefiting Connecticut businesses and consumers. The public power authority will have

the authority to plan and purchase electricity directly from generators, reducing long-term electricity costs for consumers.

Currently, electricity regulation, system planning, electricity procurement and conservation are handled by numerous state agencies in a disjointed manner. A single, public power authority could help streamline the existing, complex energy planning and procurement process. Moreover, Connecticut ratepayers would be better served if the existing structure reflected each agencies' strengths, i.e. rate issues (DPUC), siting (Siting Council) and plan/procure (Connecticut public power authority).

A public power authority could also help Connecticut get out from under quirky Federal Energy Regulatory Commission (FERC) market rules. By signing long-term contracts with resource developers, the Connecticut power authority could beat New England ISO's wholesale price. The power authority could provide power at fully allocated cost to Connecticut consumers and businesses and be able to choose from a broader portfolio of plants than those currently selected in the Forward Capacity market, including those that are significantly more cost effective. In other words, it could buy power cheaper because there is no longer an auction process, and because long-term bilateral contracts should result in lower prices. Ultimately, this will mean reduced rates for Connecticut consumers.

Public power authorities have existed for decades, with good results.<sup>1</sup> In designing a Connecticut-specific power authority, policymakers have the opportunity to adopt the best practices of existing regional and state level power authorities in the United States. Like Illinois, a Connecticut authority could be required to "Develop electricity procurement plans to ensure adequate, reliable, affordable, efficient, and environmentally sustainable electric service at the lowest total cost over time, taking into account any benefits of price stability" (Illinois Power Agency Act, Section 1-5) and other factors the public deems important.

#### **AARP Supports a Low-Income Rate (H.B. 5505, Section 1)**

AARP supports the creation of a low-income rate for gas and electric service as required under Section 1 of H.B. 5505. The low-income rate should ensure that the energy burden on low-income households is no greater than on a household earning Connecticut's median income. The cost of the discounts would be recovered in rates. The proposal requires the DPUC to order each gas and electric company to implement the discounted rates and coordinate existing low-income programs to account for the new low-income rate.

Currently, electric rates create a disproportionate economic hardship on lower-income households and seniors living on fixed incomes. Older people typically consume less energy than younger people, yet, according to the Congressional Research Service "...households

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<sup>1</sup> In addition to the Illinois Power Authority, there is the Tennessee Valley Authority, Bonneville Power Administration (Oregon, Washington, Idaho, and Montana), California Department of Water Resources, Western Area Power Administration (fifteen western states), Nebraska Public Power District, and the New York Power Authority.

headed by a person age 65 or older spend more on energy-related expenditures than their younger counterparts.”<sup>2</sup>

The differential is even greater for lower income seniors. Too often, low-income seniors must choose between risking their health and comfort by cutting back on energy expenditures or reducing spending for other basic necessities. A survey of LIHEAP recipients found that 44% closed off part of their home, 32% went without food for at least one day, 42% went without medical or dental care and 38% did not fill a prescription or took less than the full dose of a prescribed medication, as a result of high energy prices.

Additionally, seniors are more susceptible to death and illness due to extreme weather. In typical years, extreme weather events kill more Americans than all other “natural disasters” (earthquakes, tornadoes, storms, and floods) combined. Age (65 plus) and low-income are two of the most significant risk factors for weather-related deaths. Access to affordable heating and cooling is critical to helping prevent weather-related illness and death. A low-income rate would help ensure a more equitable system, and ameliorate the energy burden placed on lower-income and older residents. AARP strongly supports a low-income rate.

**AARP supports efforts to end retail electric competition, which has failed to deliver affordable rates to Connecticut consumers.**

It is clear that deregulation did not bring the lower prices consumers were promised, nor did it bring a viable level of retail competition. AARP believes that Connecticut should discontinue efforts to pursue a transition to a competitive market for electricity, and adopt reforms that ensure affordability, availability, and reliability of service. Section 30 acknowledges, in part, that the experiment of restructuring has failed and provides a modest retreat from Connecticut’s reckless pursuit of deregulation. However, H.B. 5505 should go further and adopt AARP’s recommendation to end retail electric competition and return to a regulated, cost-of-service model.

In the hope of encouraging lower prices, higher service quality, and greater innovation, policymakers restructured Connecticut’s utility industry to allow consumers to purchase electricity generation services from competing suppliers, rather than through the traditional regulated monopoly structure. In theory, competitive pressure, instead of regulators, would keep electricity rates just and reasonable. However, deregulation has failed to produce the rate cuts and retail competition its supporters had predicted. Choice of electric suppliers should not be just for choice sake. For more than ten years Connecticut rate payers—even those not interested in buying electricity from an electric supplier—have been required to subsidize the marketing costs and administrative costs of private electric suppliers. Yet, still Connecticut does not have real competition; electric supplies are not competing with each other. Suppliers only compete against standard offer service. If electric suppliers want to stay in business they have to show us what added value they deliver to consumers—no more handouts, no more subsidies.

Consumers living in deregulated states have been hit with large rate increases—relatively larger than the increases in still-regulated states—and numerous studies have shown that there is no

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<sup>2</sup> The Library of Congress, Congressional Research Service. “Impact of Rising Energy Costs on Older Americans,” March 4, 2008. Order Code RS22826.

evidence that deregulation has benefited consumers. Here in Connecticut, residents face the highest electric rates in the continental United States. Connecticut's experience with deregulation is not unique; many of the 20 states that have maintained their deregulation laws are facing rate increases of as much as 50 percent to 72 percent as residential rate caps expire. While fuel costs have certainly played a role in higher electricity costs, market power and other factors also have contributed.

AARP recommends that policymakers in Connecticut discontinue efforts to pursue a transition to a competitive market for electricity and instead support affordable Standard Offer Service.

### **Conclusion**

Utility companies and electricity suppliers offer complicated explanations for why our bills are so high. Instead of explaining away the problem, several provisions of H.B. 5505 move to fix it – to lower electricity rates and protect consumers with long-term affordability and availability. Energy affordability is a priority for AARP. We are committed to working with the sponsors of H.B. 5505 and other legislators to craft legislation that achieves our common goal—to address the energy crisis facing Connecticut residents. Twelve years is long enough for the deregulation experiment. It's time to take charge of Connecticut's energy future. Thank you.